

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



CHINA ART FINANCIAL HOLDINGS LIMITED

中國藝術金融控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1572)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2023

The board (the “**Board**”) of directors (the “**Directors**”) of China Art Financial Holdings Limited (the “**Company**”) hereby announces the audited consolidated annual results of the Company and its subsidiaries (together, the “**Group**”) for the year ended 31 December 2023 (the “**Reporting Year**”) together with comparative figures for the previous year as follows:

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

For the year ended 31 December 2023

	<i>Notes</i>	2023 RMB'000	2022 <i>RMB'000</i>
Revenue	4	59,742	27,338
Other income		2,103	2,831
Other net loss		(51)	(609)
Cost of inventories sold		(35,353)	–
Net impairment losses reversed		1,724	1,651
Staff costs		(3,468)	(3,198)
Depreciation of property, plant and equipment		(156)	(169)
Depreciation of right-of-use assets		(419)	(269)
Advertising and promotional expenses		(1,165)	(10)
Other expenses		(6,428)	(5,493)
Finance costs		(36)	(129)
Profit before tax		16,493	21,943
Income tax expenses	5	(5,474)	(7,347)
Profit for the year attributable to owners of the Company	6	11,019	14,596
Other comprehensive expense			
<i>Item that may be subsequently reclassified to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		(80)	(49)
Total comprehensive income for the year attributable to owners of the Company		10,939	14,547
Earnings per share (RMB cents)	8		
Basic		0.66	0.87
Diluted		0.66	0.87

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023

	<i>Notes</i>	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment		344	500
Right-of-use assets		1,383	511
Deferred tax assets		1,230	1,387
		<u>2,957</u>	<u>2,398</u>
Current assets			
Inventories	9	10,600	–
Loan receivables	10	422,426	493,489
Other receivables		–	153
Tax recoverable		–	88
Bank balances and cash		695,818	612,418
		<u>1,128,844</u>	<u>1,106,148</u>
Current liabilities			
Accruals and other payables	11	23,065	13,147
Lease liabilities		630	212
Tax payable		2,700	1,308
		<u>26,395</u>	<u>14,667</u>
Net current assets		<u>1,102,449</u>	<u>1,091,481</u>
Total assets less current liabilities		<u>1,105,406</u>	<u>1,093,879</u>
Non-current liabilities			
Lease liabilities		465	223
Deferred tax liabilities		346	–
		<u>811</u>	<u>223</u>
Net assets		<u>1,104,595</u>	<u>1,093,656</u>
Capital and reserves			
Share capital		14,679	14,679
Reserves		1,089,916	1,078,977
Total equity		<u>1,104,595</u>	<u>1,093,656</u>

NOTES:

1. GENERAL INFORMATION

China Art Financial Holdings Limited (the “**Company**”) was incorporated as an exempted company with limited liability in the Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). The addresses of the registered office, the principal place of business in Hong Kong and the principal place of business in the People’s Republic of China (the “**PRC**”) of the Company are Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands; 5/F., Dawning House, 145 Connaught Road Central, Sheung Wan, Hong Kong, and 63 Jingyi South Road, Yicheng Street, Yixing City, Jiangsu Province, the PRC, respectively.

The Company’s immediate holding company and ultimate holding company are Intelligenes Investment Co., Ltd. and Mauve Jade Investment Limited, respectively, both of which are limited liability companies incorporated in the British Virgin Islands.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the “**Group**”) have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared on the historical cost basis and are presented in Renminbi (“**RMB**”), which is the same as the functional currency of the Company. All values are rounded to the nearest thousand except when otherwise indicated.

The Company’s wholly-owned subsidiaries established in the PRC, 宜興市漢信信息技術服務有限公司 Yixing Hanxin Information Technology Service Co., Ltd. (“**WFOE-Pawn**”) and 宜興市紫玉信息技術服務有限公司 Yixing Ziyu Information Technology Service Co., Ltd. (“**WFOE-Auction**”), entered into two series of agreements with 江蘇和信典當有限公司 Jiangsu Hexin Pawn Co., Ltd. (“**Hexin Pawn**”) and 江蘇和信拍賣有限公司 Jiangsu Hexin Auction Co., Ltd. (“**Hexin Auction**”), respectively, which constitute the contractual arrangements (the “**Contractual Arrangements**”) for the art and asset pawn business, art and asset auction business, and art and asset sales business. The Contractual Arrangements effectively transfer the controls over economic benefits and pass the risks associated therewith of Hexin Pawn and Hexin Auction to WFOE-Pawn and WFOE-Auction respectively. The Contractual Arrangements with Hexin Pawn include: (i) Hexin Pawn composite services agreement, (ii) Hexin Pawn option agreement, (iii) Hexin Pawn proxy agreement, and (iv) Hexin Pawn equity pledge agreement; and the Contractual Arrangements with Hexin Auction include: (i) Hexin Auction composite services agreement, (ii) Hexin Auction option agreement, (iii) Hexin Auction proxy agreement, and (iv) Hexin Auction equity pledge agreement. Details of the Contractual Arrangements are set out in the section headed “Contractual Arrangements” of the prospectus of the Company dated 27 October 2016 (the “**Prospectus**”).

The Contractual Arrangements are irrevocable and enable the Group to:

- exercise effective financial and operational control over Hexin Pawn and Hexin Auction;
- exercise equity holders' voting rights of Hexin Pawn and Hexin Auction;
- receive all economic returns generated by Hexin Pawn and Hexin Auction in consideration for the exclusive technical services, management support services and consultancy services provided by the Group;
- obtain an irrevocable and exclusive right to purchase the entire equity interests in Hexin Pawn and Hexin Auction from all the equity holders of Hexin Pawn and Hexin Auction; and
- obtain a pledge over the entire equity interests of Hexin Pawn and Hexin Auction from all the equity holders of Hexin Pawn and Hexin Auction as collateral security under the Contractual Arrangements.

Pursuant to the Contractual Arrangements entered into between the Group and all the equity holders of Hexin Pawn and Hexin Auction, the Contractual Arrangements effectively transfer the controls over economic benefits and pass the risks associated therewith of Hexin Pawn and Hexin Auction to WFOE-Pawn and WFOE-Auction, respectively. Accordingly, Hexin Pawn and Hexin Auction are considered as indirect wholly-owned subsidiaries of the Company.

3. APPLICATION OF AMENDMENTS TO HKFRSs

New and amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following new and amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2023 for the preparation of the consolidated financial statements:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform — Pillar Two Model Rules
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Impact on application of Amendments to HKAS 1 and HKFRS Practice Statement 2 “Disclosure of Accounting Policies”

The Group has adopted Amendments to HKAS 1 and HKFRS Practice Statement 2 “Disclosure of Accounting Policies” for the first time in the current year. HKAS 1 “Presentation of Financial Statements” is amended to replace all instances of the term “significant accounting policies” with “material accounting policy information”. Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

HKFRS Practice Statement 2 “Making Materiality Judgements” (the “**Practice Statement**”) is also amended to illustrate how an entity applies the “four-step materiality process” to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments has had no material impact on the Group’s financial positions and performance but has affected the disclosure of the Group’s material accounting policies set out in the consolidated financial statements.

Amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following amendments to HKFRSs that have been issued but are not yet effective:

Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback ¹
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ¹
Amendments to HKAS 1	Non-current Liabilities with Covenants ¹
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements ¹
Amendments to HKAS 21	Lack of Exchangeability ²

¹ Effective for annual periods beginning on or after 1 January 2024.

² Effective for annual periods beginning on or after 1 January 2025.

³ Effective for annual periods beginning on or after a date to be determined.

The directors of the Company anticipate that the application of all amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

4. REVENUE AND SEGMENT INFORMATION

Revenue

An analysis of the Group's revenue is as follows:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Interest revenue from art and asset pawn business	15,136	26,998
Sales of artwork from art and asset sales business	42,699	–
Auction revenue from art and asset auction business	1,907	340
	<u>59,742</u>	<u>27,338</u>
Total	<u>59,742</u>	<u>27,338</u>

Interest revenue on loans to customers for art and asset pawn business is recognised using the effective interest method.

Sales of artwork from art and asset sales business constitute revenue from contracts with customers and are recognised at a point in time upon transferring control of artwork to customers, which generally coincides with the time when the artwork are delivered and titles have been passed to the customers. The customers are required to settle the entire purchase prices of the artwork within 3 days after signing the contracts with the Group.

Auction revenue from art and asset auction business represents primarily buyer's and seller's commission from provision of art and asset auction services which is calculated at a percentage of hammer prices of the auction sales. Such revenue constitutes revenue from contracts with customers and is recognised at a point in time upon the fall of hammer when the Group transfers the promised auction services to the customers. The customers are required to settle the buyer's commission and the seller's commission to the Group within 15 days and 60 days, respectively, after the date of auction.

Disaggregation of revenue from contracts with customers for sales of artwork from art and asset sales business

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
By types of asset		
Zisha artwork	30,841	–
Calligraphies and paintings	11,858	–
	<u>42,699</u>	<u>–</u>
Total	<u>42,699</u>	<u>–</u>
By geographical location		
The PRC, excluding Hong Kong	42,699	–
	<u>42,699</u>	<u>–</u>

Disaggregation of revenue from contracts with customers for auction revenue from art and asset auction business

	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
By types of asset		
Zisha artwork	1,748	–
Residential properties and carpark	–	288
Commercial properties	78	52
Others	81	–
	<hr/>	<hr/>
Total	1,907	340
	<hr/> <hr/>	<hr/> <hr/>
By geographical location		
The PRC, excluding Hong Kong	1,907	340
	<hr/> <hr/>	<hr/> <hr/>

Segment Information

The segment information reported externally was analysed based on (i) art and asset pawn business, (ii) art and asset auction business, and (iii) art and asset sales business, which is consistent with the internal information that is regularly reviewed by the chief executive officer of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance. This is also the basis of organisation in the Group, whereby the management has chosen to organise the Group by these business activities.

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies. Segment result represents the result earned by each segment without allocation of other income, other net loss, central administrative expenses and finance costs. Segment assets and liabilities are allocated to each segment excluding deferred tax assets, deferred tax liabilities, loan from a former director, amount due to a director, amount due to a director of the Company's subsidiaries, bank balances and cash, tax recoverable, tax payable, and unallocated corporate assets and liabilities. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Segment revenue and results

The following is an analysis of the Group's revenue and results by operating and reportable segment:

	Art and asset pawn business <i>RMB'000</i>	Art and asset auction business <i>RMB'000</i>	Art and asset sales business <i>RMB'000</i>	Total <i>RMB'000</i>
2023				
Segment revenue	15,136	1,907	42,699	59,742
Segment costs	(2,814)	(752)	(37,761)	(41,327)
Net impairment losses reversed	1,724	–	–	1,724
Segment results	<u>14,046</u>	<u>1,155</u>	<u>4,938</u>	<u>20,139</u>
Other income				2,103
Other net loss				(51)
Central administrative expenses				(5,662)
Finance costs				<u>(36)</u>
Profit before tax				<u><u>16,493</u></u>
	Art and asset pawn business <i>RMB'000</i>	Art and asset auction business <i>RMB'000</i>	Art and asset sales business <i>RMB'000</i>	Total <i>RMB'000</i>
2022				
Segment revenue	26,998	340	–	27,338
Segment costs	(2,457)	(1,424)	(311)	(4,192)
Net impairment losses reversed	1,651	–	–	1,651
Segment results	<u>26,192</u>	<u>(1,084)</u>	<u>(311)</u>	<u>24,797</u>
Other income				2,831
Other net loss				(609)
Central administrative expenses				(4,947)
Finance costs				<u>(129)</u>
Profit before tax				<u><u>21,943</u></u>

Other segment information

	Art and asset pawn business <i>RMB'000</i>	Art and asset auction business <i>RMB'000</i>	Art and asset sales business <i>RMB'000</i>	Total <i>RMB'000</i>
2023				
Segment information included in the measure of segment results or assets:				
Depreciation of property, plant and equipment	156	–	–	156
Depreciation of right-of-use assets	192	113	114	419
Additions to right-of-use assets	–	867	867	1,734
	Art and asset pawn business <i>RMB'000</i>	Art and asset auction business <i>RMB'000</i>	Art and asset sales business <i>RMB'000</i>	Total <i>RMB'000</i>

2022
Segment information included in the measure of segment results or assets:

Depreciation of property, plant and equipment	163	6	–	169
Depreciation of right-of-use assets	204	65	–	269

Geographical information

The following table sets out information about the geographical locations of the Group's revenue from external customers and specified non-current assets. The geographical location of the Group's revenue from external customers is based on the location of the Group's operations for art and asset pawn business, the location of services rendered for art and asset auction business, and the location of the goods delivered for art and asset sales business. The Group's specified non-current assets comprise property, plant and equipment, and right-of-use assets, and the geographical location of these specified non-current assets is based on the physical location of these assets.

	Revenue from external customers		Specified non-current assets	
	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
The PRC, excluding Hong Kong (place of domicile)	59,742	27,338	1,727	1,011
Hong Kong	–	–	–	–
	<u>59,742</u>	<u>27,338</u>	<u>1,727</u>	<u>1,011</u>

Information about major customers

Revenue from external customers individually contributing 10% or more of the Group's total revenue is as follows:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Customer A	11,581 ¹	–
Customer B	9,845 ²	– ⁴
Customer C	7,920 ³	–
Customer D	6,851 ²	– ⁴

¹ The revenue is derived from art and asset auction business, and art and asset sales business.

² The revenue is derived from art and asset pawn business, and art and asset sales business.

³ The revenue is derived from art and asset sales business.

⁴ The corresponding revenue did not contribute 10% or more of the Group's total revenue for the respective reporting period.

All external customers individually accounted for less than 10% of the Group's total revenue for the year ended 31 December 2022.

5. INCOME TAX EXPENSES

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Current tax		
PRC Enterprise Income Tax (“EIT”)	5,119	6,580
(Overprovision)/underprovision in respect of prior years	(148)	354
	4,971	6,934
Deferred tax charge	503	413
	5,474	7,347

Under the PRC EIT law, the tax rate of the Company's subsidiaries established in the PRC was 25% for the years ended 31 December 2023 and 2022.

No provision for Hong Kong Profits Tax was made during the years ended 31 December 2023 and 2022 as the Group did not have assessable profits arising in Hong Kong during both years.

6. PROFIT FOR THE YEAR

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Profit for the year has been arrived at after charging/(crediting):		
Depreciation of property, plant and equipment	156	169
Depreciation of right-of-use assets	419	269
Interest expenses on lease liabilities	36	27
Interest expenses on loan from a former director	–	102
Net impairment losses reversed on loans to customers for art and asset pawn business	<u>(1,724)</u>	<u>(1,651)</u>

7. DIVIDEND

The directors of the Company do not recommend the payment of a final dividend for the year ended 31 December 2023 (2022: Nil).

8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Earnings		
Profit for the year for the purpose of calculating basic and diluted earnings per share	<u>11,019</u>	<u>14,596</u>
	2023 <i>'000</i>	2022 <i>'000</i>
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings per share	<u>1,678,000</u>	<u>1,678,000</u>

Diluted earnings per share for the year ended 31 December 2023 is the same as the basic earnings per share as the Company has no potential dilutive ordinary shares outstanding during the year.

Diluted earnings per share for the year ended 31 December 2022 was the same as the basic earnings per share as the exercise prices of the Company's outstanding share options were higher than the average market prices of the Company's ordinary shares during that year.

9. INVENTORIES

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Calligraphies and paintings	6,800	–
Zisha artwork	3,800	–
	<u>10,600</u>	<u>–</u>

The cost of inventories recognised as expenses and included in “cost of inventories sold” amounted to RMB35,353,000 for the year ended 31 December 2023 (2022: Nil).

10. LOAN RECEIVABLES

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Art and asset pawn loans to customers	426,251	499,038
Less: Impairment allowances	(3,825)	(5,549)
	<u>422,426</u>	<u>493,489</u>

The art and asset pawn loans to customers are arising from the Group’s art and asset pawn business. The loan periods initially granted to customers are normally within three months and the maximum tenure of each loan is six months from the date of the loan initially granted. At the maturity of the loan period, a borrower has the obligation to repay the principal amount of the loan or, alternatively, a borrower may make an application for a renewal of the loan prior to or within five days after, the maturity date of the loan period. The loans granted to customers carried effective interest rates ranging from approximately 7% to 12% (2022: 6% to 18%) per annum during the year ended 31 December 2023. Art and asset pawn loans to customers were all denominated in RMB.

All art and asset pawn loans granted are backed by collateral as security. The principal collateral types for loans to customers are the artwork and other assets, mainly Zisha artwork, paintings and calligraphies. The Group is not permitted to sell or repledge the pawn assets in the absence of default by the customers. There have not been any significant changes in the quality of the collateral held.

The ageing analysis of art and asset pawn loans to customers (net of impairment allowances) by issue date of initial pawn tickets upon granting of the pawn loans is set out below:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Within 1 month	102,007	249,634
1–3 months	188,659	243,834
3–6 months	131,760	21
Total	<u>422,426</u>	<u>493,489</u>

As at 31 December 2023 and 2022, all loan receivables were not yet past due based on the contractual due dates as stipulated in pawn tickets.

11. ACCRUALS AND OTHER PAYABLES

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Accrued expenses	4,585	5,302
Payables on behalf of customers in respect of art and asset auction business (<i>Note a</i>)	281	–
Loan from a former director (<i>Note b</i>)	7,154	7,128
Amount due to a director (<i>Note c</i>)	1,788	–
Amount due to a director of the Company's subsidiaries (<i>Note d</i>)	4,854	244
Contract liabilities (<i>Note e</i>)	2,000	–
Other tax payables	2,373	412
Others	30	61
	<u>23,065</u>	<u>13,147</u>

Notes:

- (a) For the payables of art and asset auction business, after the purchase cost and all outstanding commission receivable from the buyer are fully settled, net sale proceeds (being the hammer price after deducting the seller's commission and the personal income tax) will be paid to the seller within 60 days from date of auction. The Group has financial risk management policies in place to ensure that all payables are settled within the credit time frame.

The Group's payables on behalf of customers in respect of art and asset auction business were aged within 60 days as at 31 December 2023 based on the dates of relevant auction services rendered.

(b) Name of former director	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Ms. Lam Siu Miu	<u>7,154</u>	<u>7,128</u>

Ms. Lam Siu Miu resigned as the executive director of the Company on 21 March 2022 and was appointed as the Chief Executive Officer of the Company on 23 March 2022.

The loan from a former director was unsecured and interest-free. As at 31 December 2022, the loan from a former director was repayable on or before 30 June 2023. During the year ended 31 December 2023, Ms. Lam agreed to extend the repayable date of the loan to 30 June 2024.

- (c) The amount due to Mr. Fan Zhixin, the executive director of the Company, was non-trade nature, unsecured, interest-free, and repayable on demand.

- (d) The amount due to Mr. Fan Zhijun, a director of the Company's subsidiaries, was non-trade nature, unsecured, interest-free and repayable on demand. Mr. Fan Zhijun resigned as the executive director of the Company on 15 September 2023 and remained as the director of the Company's subsidiaries.
- (e) The contract liabilities are the advance payments from customers for the sales of artwork which have not yet been completed.

The movement of contract liabilities are as follows:

	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January	–	–
Increase due to cash received, excluding amounts recognised as revenue	<u>2,000</u>	<u>–</u>
At 31 December	<u><u>2,000</u></u>	<u><u>–</u></u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2023, the international and domestic markets continued to experience extreme challenging situation. The Company and its subsidiaries (collectively referred to as the “**Group**”) have adjusted their marketing strategies from time to time in response to the highly unstable environment.

Art and Asset Pawn Business

During the Reporting Year, the revenue from the art and asset pawn business was approximately RMB15.1 million, representing a decrease of approximately 44% from approximately RMB27.0 million in last year. The decrease was the result of the significant drop in the pawn loan interest rates during the Reporting Year. The PRC central bank had consistently lowered interest rates during the Reporting Year, which has resulted in a decline in the market advantage of pawn loan business. Therefore, the total amount of the art and asset pawn loans was reduced, and the monthly composite administrative fees charged for pawn loans were also reduced.

The profits derived from the art and asset pawn business during the Reporting Year was approximately RMB14.0 million, representing a decrease of approximately 46% from approximately RMB26.2 million for the corresponding last year. The Group has implemented a risk management system which the Group believes to be effective in reducing various risks involved in our art and asset pawn loan business. The Group established a multi-level internal approval system and an effective risk management system, and had a professional internal and external authentication team. The Group also hired external authoritative authentication institutions as the Company’s independent advisor. As results, the art and asset pawn business did not experience any default during the Reporting Year.

Art and Asset Auction Business

With the nationwide loosening the restriction of COVID-19 control measures and the reopening all borders in the PRC in early January 2023, the Group organised several auction and related activities during the Reporting Year especially the 2023 Autumn auction. The Group has been communicating with the PRC local government for the suitability of holding large scale auction and related activities. Meanwhile, the Group is actively looking for new auction formats.

During the Reporting Year, the revenue from the art and asset auction business was approximately RMB1.9 million, representing an increase of approximately 461% from approximately RMB0.3 million in last year. Profits derived from the art and asset auction business was approximately RMB1.2 million during the Reporting Period, while the Group recorded losses of approximately RMB1.1 million from the art and asset auction business in last year. The turnaround of segment results of the art and asset auction business was mainly due to the increase in auction revenue generated from this business during the Reporting Year and the Group proactively prepared for the auction and related activities, and performed well in the relevant preparatory work for the art and asset auction business.

Art and Asset Sales Business

During the Reporting Year, the Group has diversified its existing businesses and has engaged in artwork trading through the art and asset sales business. The Group's strategy is to identify and locate potential buyers for artwork from its customers accrued in the past ten-odd years. Through maintaining regular contact with such customers, engaging external professional experts to provide further art sales training to the existing staff, enlarging potential customer base by marketing and promotion, the Group laid a solid foundation for the development of the art and asset sales business. The Group has extensive business in the art industry, and has a wide customer base in the past ten-odd years. The Group has sourced and purchased purple clayware, calligraphies and painting artwork with good value for money in the market, while increasing the frequency of communication among potential customers at the same time to match interested buyers. Also, based on the enhanced communication with existing customers, the Group would also assist such customers to look for and purchase artworks which they are interested from renowned vendors or collectors in the market.

During the Reporting Year, the revenue from the art and asset sales business was approximately RMB42.7 million, representing an increase of 100% from the last year. As the Group has diversified its existing businesses and has engaged in artwork trading during the Reporting Year, the revenue from the art and asset sales business were solely derived from the artwork trading and the profits derived from the art and asset sales business during the Reporting Year was approximately RMB4.9 million, while the Group recorded losses of approximately RMB0.3 million from the art and asset sales business in last year. The turnaround of segment results of the art and asset sales business was mainly due to the increase in revenue generated from artwork trading during the Reporting Year.

FINANCIAL REVIEW

Revenue

Our revenue for the Reporting Year amounted to approximately RMB59.7 million, representing a year-on-year increase of 119%, from approximately RMB27.3 million in last year. It was primarily due to an increase in revenue from sales of artwork through the art and asset sales business, as well as increased auction revenue from the art and asset auction business.

Other income

Our other income decreased by approximately 26% to approximately RMB2.1 million for the Reporting Year as compared to the corresponding last year, primarily due to decrease in bank interest income during the Reporting Year.

Other net loss

Our other net loss decreased by approximately 92% to approximately RMB0.1 million for the Reporting Year as compared to the corresponding last year, primarily due to reduction in exchange losses arising from foreign currency translation.

Cost of inventories sold

Our cost of inventories sold for the Reporting Year amounted to approximately RMB35.4 million (2022: Nil) and the amounts represented the purchase costs of artwork which were sold to our customers through the art and asset sales business during the Reporting Year.

Net impairment losses reversed

During the Reporting Year, impairment losses on pawn loans amounting to approximately RMB1.7 million (2022: RMB1.7 million) were reversed.

Staff costs

Our staff costs increased by approximately RMB0.3 million, or approximately 8%, from approximately RMB3.2 million in last year to approximately RMB3.5 million during the Reporting Year because our Group hired additional staffs to enhance our Group's business operations and development.

Depreciation of property, plant and equipment

Depreciation of property, plant and equipment for the Reporting Year maintained steadily at approximately RMB0.2 million as compared to the corresponding last year as our Group did not have material additions or disposals of property, plant and equipment during both years.

Depreciation of right-of-use assets

Depreciation of right-of-use assets increased by approximately RMB0.2 million, or approximately 56%, from approximately RMB0.3 million in last year to approximately RMB0.4 million for the Reporting Year as our Group entered into a new lease of safe storehouse in the PRC during the Reporting Period.

Advertising and promotional expenses

Advertising and promotional expenses increased by approximately RMB1.2 million during the Reporting Year as our Group increased the expenses in relation to advertising and promotional expenses to enhance our brand value and to promote the related business activities in the PRC during the Reporting Period.

Other expenses

Other expenses increased by approximately RMB0.9 million, or approximately 17%, from approximately RMB5.5 million in last year to approximately RMB6.4 million during the Reporting Year, primarily due to the increase in legal and professional fees, and tax surcharge for increase in business activities during the Reporting Year.

Profit before tax

As a result of the foregoing, our profit before tax decreased by approximately RMB5.5 million, or approximately 25%, from approximately RMB21.9 million in last year to approximately RMB16.5 million during the Reporting Year. The drop in profit before tax mainly resulted from decrease in interest revenue from art and asset pawn business, and increase in operating expenses of our Group.

Income tax expenses

Our income tax expenses decreased by approximately RMB1.9 million, or approximately 25%, from approximately RMB7.3 million in last year to approximately RMB5.5 million during the Reporting Year, primarily due to a decrease in our Group's taxable profits during the Reporting Year.

Total comprehensive income for the year

Total comprehensive income for the year decreased by approximately RMB3.6 million, or approximately 25%, from approximately RMB14.5 million in last year to approximately RMB10.9 million during the Reporting Year, primarily due to a decrease in profit for the Reporting Year.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net Cash Flow

The Group maintains a strong and healthy financial position. The Group's principal sources of funds to finance the working capital, capital expenditure and other capital requirements were internally generated by cash flows. As of 31 December 2023, net working capital (calculated as current assets less current liabilities) was approximately RMB1,102.4 million, representing an increase of approximately RMB10.9 million as compared with approximately RMB1,091.5 million as of 31 December 2022. The current ratios (calculated as current assets/current liabilities) are 42.8 times and 75.4 times as of 31 December 2023 and 2022 respectively.

The following table summarises the consolidated statement of cash flows for the years ended 31 December 2023 and 2022:

	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash generated from/(used in) operating activities	75,612	(109,722)
Net cash generated from investing activities	2,103	5,142
Net cash generated from/(used in) financing activities	5,682	(58)

As of 31 December 2023, the Group's total bank balances and cash increased by 14% to approximately RMB695.8 million from approximately RMB612.4 million as of 31 December 2022.

During the Reporting Year, the Group did not engage in any derivative activities or use any financial instruments to hedge its balance sheet exposures.

The Group principally focused on the operation in the PRC. The Group was not subject to any other material risk directly relating to the foreign exchange fluctuation. During the Reporting Year, despite the depreciation of RMB against HKD, the Directors expected any fluctuation of the RMB exchange rate would not materially and adversely affect the operations of the Group. The management will continue to monitor foreign currency exchange exposure and will take prudent measures to minimize the currency translation risk.

Gearing Ratio

The gearing ratio, calculated on the basis of total interest bearing borrowings (including loan from a former director, amount due to a director and amount due to a director of the Company's subsidiaries) to equity (including all capital and reserves), was 1.2% (2022: 0.7%).

Contingent Liabilities

As of 31 December 2023 and 2022, the Group did not have any material contingent liabilities nor any other off-balance sheet commitments and arrangements.

Capital Expenditure

For the years ended 31 December 2023 and 2022, the Group did not incur any expenditures on property, plant and equipment.

Capital Commitment

As at 31 December 2023 and 2022, the Group did not have material capital commitments.

Events after the reporting period

The Group did not have any significant event after the end of the Reporting Year.

Human Resources and Training

As of 31 December 2023, the Group had a total of 33 employees. The Group's employee remuneration policy is determined on the basis of their performance, qualifications, experience and prevailing market practice. Remuneration packages comprise salary, medical insurance, mandatory provident fund and year end discretionary bonus.

Foreign Exchange Risks

As most of the Group's monetary assets and liabilities are denominated in Renminbi and the Group conducts its business transactions principally in Renminbi and Hong Kong dollars, the exchange rate risk of the Group is not significant. The Group did not enter into any foreign exchange hedging instruments during the year ended 31 December 2023.

SHARE OPTION SCHEME

A share option scheme (the “**Share Option Scheme**”) was adopted by ordinary resolution passed by the then shareholders of the Company on 14 October 2016. Under the Share Option Scheme, the directors of the Company may grant options to subscribe for shares of the Company to eligible participants, including without limitation to employees of the Group, directors of the Company and its subsidiaries.

During the Reporting Year, no share option was granted, exercised, cancelled or lapsed and outstanding under the Share Option Scheme.

USE OF NET PROCEEDS

On 8 November 2016 (the “**Listing Date**”), the Company issued 400,000,000 new shares of nominal value of HK\$0.01 each in connection with the listing of its shares on the Stock Exchange (the “**IPO**”). The net proceeds after deducting the underwriting commission and issuing expenses arising from the IPO amounted to HK\$237.7 million (equivalent to RMB212.6 million).

Change of use of proceeds

The Group provides art finance services under three business segments, namely (i) art and asset pawn business, (ii) art and asset auction business and (iii) art and asset sales business. The Group has established good and stable relationship with artwork artists, agents, merchants, collectors and art galleries (collectively, the “**Artwork Sellers**”) which enables the Group to source high-value artworks. The Group also has a professional authentication and appraisal team (the “**Appraisal Team**”) to check the authenticity and assess the value of the artworks.

Due to the outbreak of COVID-19 and the adverse market conditions, some of the Artwork Sellers have not been able to sell their artworks and are willing to sell them at a significant discount. Leveraging on the Group’s relationships with the Artwork Sellers and the expertise of the Appraisal Team, the Group believes that it will be able to identify suitable artworks for trading for the Group. The Group intends to sell the artworks acquired at its future auctions and/or private sales and expects that it will be able to generate profit for the Group through (i) gain on the difference between their acquisition price and sale price; and (ii) auction commissions when selling the artworks through its future auctions.

The Company noted that the outcomes of investment made in strengthening of online platform is below expectation and the high net worth buyers prefer viewing and inspecting the artworks in person to viewing the photos of the artworks online. The Board therefore considers that further investment in strengthening online auction platform and developing online loan financing platform may not be able to make a breakthrough in the Group’s business and generate satisfactory financial results and return for the Group.

Having considered the above, the Board is of the view that the unutilised net proceeds originally allocated for strengthening online auction platform and developing online loan financing platform can be better utilised for generating profit for the Group by reallocating to trading of artworks.

On 29 July 2020 (the “**Date of Reallocation**”), the Board has resolved to reallocate the unutilised net proceeds, which were originally allocated for strengthening online auction platform and developing online loan financing platform, for trading of artworks.

Revised allocation of the net proceeds from the IPO on the Date of Reallocation and the unutilised net proceeds as at 31 December 2023 are set out as follows:

	Planned use of proceeds as disclosed in the prospectus of the Company dated 27 October 2016		Utilisation as at the Date of Reallocation	Unutilised net proceeds as at the Date of Reallocation	Revised allocation of the net proceeds		Unutilised net proceeds as at 31 December 2023
	<i>HK\$ million</i>	<i>% of net proceeds</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>% of revised allocation</i>	<i>HK\$ million</i>
Increase the registered capital of Hexin Pawn	118.9	50	118.9	-	118.9	50	-
Strengthening online auction platform and developing online loan financing platform	47.5	20	2.0	45.5	2.0	1	-
Establishment of new loan offices in other part of China and new auction branches or subsidiaries in Beijing, Shanghai and Hong Kong	47.5	20	47.5	-	47.5	20	-
Trading of artworks	-	-	-	-	45.5	19	-
Funding of general operations	23.8	10	23.8	-	23.8	10	-
Total	<u>237.7</u>	<u>100</u>	<u>192.2</u>	<u>45.5</u>	<u>237.7</u>	<u>100</u>	<u>-</u>

MATERIAL ACQUISITION AND DISPOSALS OF SUBSIDIARIES OR ASSOCIATED COMPANIES

The Group had no material acquisition or disposal of subsidiaries or associated companies during the year ended 31 December 2023. In addition, the Group had no significant investments held during the year ended 31 December 2023.

OUTLOOK AND PROSPECTS

Looking ahead, it is expected that the global economic environment remains challenging and uncertain due to persistent inflation and ongoing geopolitical tensions. It is also expected that the domestic economy in China will continue to face challenges related to political tensions between China and the U.S. Nevertheless, the economic environment in Mainland China has shown signs of improvement following the nationwide loosening the restriction of COVID-19 control measures and the reopening of all borders in early January 2023. We anticipate that this will have a positive impact on our business for the coming year. As always, we remain vigilant and adaptable in the face of ongoing economic and geopolitical challenges. By staying true to our core values and mission as a company and remaining focused on our long-term goals, we are confident that we can position our business for success in the years to come.

Art and Asset Auction Business

With the nationwide loosening the restriction of COVID-19 control measures, we are continuously communicating with the PRC local government for the suitability of holding large scale auction and related activities. We are working to secure a safe environment to resume our art auction activities and host the art auctions in 2024.

Art and Asset Pawn Business

In 2024, the Group would continue to adopt a conservative attitude in granting pawn loans to new customers. Credit risk is expected to rise and the Group's priority target is to minimize our credit exposure and secure our capital safety in the volatile market condition.

Art and Asset Sales Business

Leveraging on the Group's relationships with the collectors and the expertise of the appraisal team, we believe that we will be able to identify suitable artworks for sales. We plan to sell the artworks acquired at future auctions and/or private sales and expects that it will be able to generate profit for the Group through (i) gain on the difference between their acquisition price and sale price; (ii) agency service income for solicitation and promotion of artwork for sales and (iii) auction commissions when selling the artworks through our future auctions.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2023 (2022: Nil).

CORPORATE GOVERNANCE

The Company has adopted the code provisions set out in the Corporate Governance Code (the “**Code**”) contained in Appendix 14 to the Rules Governing the Listing of Securities (the “**Listing Rules**”) of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

In the opinion of the Directors, the Company applied and complied with all the code provisions of the Code throughout the Reporting Year.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“**Model Code**”) as set out in Appendix 10 to the Listing Rules as the code of conduct for Directors in their dealings in Company’s securities. Having made specific enquiry of all Directors, all the Directors confirmed that they had complied with the required standard of dealings as set out in the Model Code during the Reporting Year.

The Code sets out two levels of recommendations, namely, (a) code provisions that a listed company must either comply with or explain its non-compliance, and (b) recommended best practices that listed companies are encouraged to comply with but need not disclose in the case of non-compliance.

UPDATE ON DIRECTORS AND CHIEF EXECUTIVE OFFICER INFORMATION

The following is updated information of the directors and the chief executive officer required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

- (1) Mr. Liu Jian has resigned his position as an independent non-executive Director with effect from 18 January 2023.
- (2) Mr. Liu Xudong was appointed as an executive Director with effect from 7 February 2023.
- (3) Ms. Shao Qiongqiong was appointed as an independent non-executive Director with effect from 7 February 2023.
- (4) Mr. Fan Zhijun has resigned his position as a Chairman and an executive Director with effect from 15 September 2023.
- (5) Mr. Liu Xudong has resigned his position as an executive Director with effect from 15 September 2023.

- (6) Mr. Fan Zhixin was appointed as an executive Director and Co-Chairman with effect from 15 September 2023 and 2 February 2024 respectively.
- (7) Mr. Tian Rui was appointed as a non-executive Director and Co-Chairman with effect from 18 December 2023 and 2 February 2024 respectively.

AUDIT COMMITTEE

An audit committee of the Board (“**Audit Committee**”) has been established with written terms of reference to, among other matters, review and supervise the financial reporting process and internal control system of the Group. The Audit Committee comprises all the independent non-executive Directors. The annual results of the Group for the year ended 31 December 2023 have been reviewed by the Audit Committee.

SCOPE OF WORK OF THE GROUP’S AUDITOR

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2023 as set out in the preliminary announcement have been agreed by the Group’s auditor, Ascenda Cachet CPA Limited, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by Ascenda Cachet CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ascenda Cachet CPA Limited on the preliminary announcement.

**PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED
SECURITIES**

The Company and its subsidiaries did not purchase, sell or redeem any of the listed securities of the Company during the year ended 31 December 2023.

By order of the Board
China Art Financial Holdings Limited
Fan Zhixin
Co-Chairman and Executive Director

Hong Kong, 28 March 2024

As at the date of this announcement, the Board comprises (1) Mr. Fan Zhixin (Co-Chairman) as the executive Director, (2) Mr. Chen Yunwei and Mr. Tian Rui (Co-Chairman) as the non-executive Directors and (3) Mr. Leung Shu Sun, Sunny, Ms. Shao Qiongqiong and Ms. Yin Xuhong as the independent non-executive Directors.